

## Message Text

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ACTION EB-07

INFO OCT-01 ARA-10 ISO-00 AID-05 CIAE-00 COME-00 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 PA-02 PRS-01 /099 W

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R 021952Z SEP 75

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 9994

UNCLAS CARACAS 9102

E.O. 11652: N/A

TAGS: EIND, VE

SUBJ: NEW AUTOMOTIVE INDUSTRY POLICY

1. THE DIRECTOR OF INDUSTRIES OF THE MINISTRY OF DEVELOPMENT HAS REVEALED DETAILS OF NEW POLICIES FOR THE VENEZUELAN AUTOMOTIVE INDUSTRY WHICH WERE APPROVED DURING THE LAST CABINET MEETING. THE SALIENT POINTS ARE A LIMITATION OF MODELS TO BE MANUFACTURED FROM THE PRESENT 52 DOWN TO 10 OR 12 MODELS AND THE INCORPORATION OF ENGINES AND TRANSMISSIONS.

2. THE PLAN COVERS THE YEARS 1975 THROUGH 1987 AND ESTABLISHES DETAILED PLANS OF PERCENTAGE OF USE OF LOCALLY MADE PARTS, INCREASING FROM YEAR TO YEAR, UNTIL REACHING 90 PERCENT. THE FOLLOWING CENTRAL MANUFACTURING PLANTS ARE TO BE INSTALLED: A FORGE WITH 15,000 TONS/YEAR CAPACITY; A FOUNDRY WITH 60,000 TONS/YEAR; TWO ENGINE PLANTS FOR SIX AND EIGHT CYLINDER ENGINES WITH A CAPACITY OF 144,000 UNITS/YEAR; ONE PLANT FOR FOUR CYLINDER ENGINES TO PRODUCE 46,000 UNITS/YEAR; A DIESEL ENGINE FOR 4,000 UNITS AND ONE TRANSMISSION PLANT EACH FOR HYDRAULIC AND SYNCHRONIZED TRANSMISSIONS WITH 96,000 AND 100,000 UNITS/YEAR CAPACITY, RESPECTIVELY.

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3. TOTAL INVESTMENT FOR THESE PROJECTS ARE ESTIMATED AT BS.

2 BILLION AND THE GOV ESTIMATES THAT 30,000 NEWJOBS WILL BE CREATED.

4. NO NEW MANUFACUTRERS WILL BE AUTHORIZED. PRICE CONTROLS ON COMPONENTS AND VEHICLES WILL BE ESTABLISHED OR UPHELD, RESPECTIVELY. ASSEMBLERS MUST GUARANTEE PARTS FOR SEVEN YEARS FOR ANY MODEL PRODUCED. AFTER 1987, ANY IMPORTS MUST BE COMPENSATED FOR BY EXPORTS OF OTHER PARTS.

COMMENT: THERE SEEMS TO BE LITTLE DOUBT THAT THIS NEW POLICY, IF FULLY IMPLEMENTED, WILL CAUSE A SHAKEOUT OF THE AUTOMOBILE INDUSTRY. WHILE THE REDUCTION IN NUMBER OF MODELS ALONE MIGHT NOT DIRECTLY CAUSE SUCH A RESULT, THE REQUIREMENT TO USE LOCALLY MADE ENGINES WILL CERTAINLY INDUCE SOME OF THE ASSEMBLERS TO LEAVE, MERCEDEZ BENZ AND VOLKSWAGON ALREADY HAVE MADE ANNOUNCEMENTS TO THIS EFFECTS. PRICE CONTROLS ALREADY EXIST ON LOW TO MEDIUM-PRICED AUTOMOBILES AND ONE SAME COMPONENTS, SUCH AS BATTERIES AND TIRES. IF PRICES FOR LOCALLY MADE COMPONENTS ARE NOT CONTROLLED EFFECTIVELY, THEY WOULD INCREASE ASSEMBLY COSTS EXORBITANTLY, WITH PRESENT PRICE CEILINGS OF AUTOMOBILES WOULD RESULT IN TOO LOW A PROFIT MARGIN TO MAKE ASSEMBLERS INTERESTED IN REMAINING IN VENEZUELA.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** AUTOMOTIVE INDUSTRY, POLICIES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 02 SEP 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 JAN 1960  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975CARACA09102  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D750303-0434  
**From:** CARACAS  
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**Line Count:** 85  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EB  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 2  
**Previous Channel Indicators:** n/a  
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**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** RowellE0  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 28 MAR 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <28 MAR 2003 by MaustMC>; APPROVED <12 JAN 2004 by RowellE0>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** NEW AUTOMOTIVE INDUSTRY POLICY  
**TAGS:** EIND, VE  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006